

COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON ENERGY AND RESOURCES



*OPENING STATEMENT OF
CHAIRMAN DARRELL ISSA
“Meeting America’s Natural Gas Demand: Are We in a Crisis?”
SEPTEMBER 14, 2005*

Natural gas prices have been at record highs because of an ongoing tight supply and demand situation in the US. Hurricane Katrina has put increased pressure on markets. A healthy economy was already stressing the capacity of the natural gas market to meet demand.

Katrina added a supply-side shock by shutting-in a significant volume of Gulf of Mexico production and damaging natural gas processing facilities.

According to the Energy Information Administration, we are facing very high energy costs this winter. Spending on natural gas is forecast to be 52 percent higher as a nationwide average, with residential consumers in the upper-Midwest experiencing an increase of 71 percent over last year to heat their homes.

US industry will also be impacted by high prices because it derives 40 percent of its primary energy from natural gas. Many industrial users do not have the option of switching to other sources of fuel when natural gas prices rise. As a result of high prices, we are no longer the world’s top location for making chemicals; we are now a net importer of chemicals.

Ongoing high prices have also helped to shutter 21 nitrogen fertilizer production facilities, and production has moved overseas.

Hurricane Katrina is not the sole cause of this sobering market outlook. In fact, the tight supply and demand situation and stubbornly high prices have been ongoing for 5 years. The

natural gas market has become a victim of its own success. Most newly constructed homes are heated by natural gas. It is clean-burning and efficient compared to most alternatives.

But the biggest reason for the increase in year-round demand is that natural gas has become the preferred fuel choice for electricity generation. Since the 1990s, for right or wrong, almost all new plants are powered by natural gas. From 1996 to 2000, the use of natural gas for electricity grew 11 percent *per year*.

It is time we diversified away from natural gas as a cure-all for electricity generation and NIMBY siting problems. The recently enacted energy bill is a step in the right direction.

Clearly, events have caused a reexamination of policies and practices in terms of domestic production. Some producers have suggested that onshore drilling operations should take place throughout the year rather than being restricted to seasonal activity, because it may have less of an environmental impact than dismantling, transporting, and then rebuilding drill pads. And likewise, some have suggested that natural gas exploration and production activities on the Outer Continental Shelf may have a different environmental impact than that of oil drilling. I would appreciate any comments our knowledgeable witnesses may have about these activities.

The fact is that we cannot meet our current and future needs without taking a number of positive steps. We must build-in flexibility to meet demand by increasing domestic production. We must increase imports of Liquefied Natural Gas. And we must acknowledge that the most important use of natural gas is for our industrial and employment base. There is a fundamental disconnect between our appetite for natural gas and our willingness to make the hard choices to satisfy it. It is time we looked at these choices.

Today we will examine the current and future sources of supply for natural gas consumed in the US, as well as the effect of regulatory policies on domestic production.

In short, where will our natural gas come from, and what are the economic implications of the choices we make to supply our demand for natural gas?

Are we facing a crisis in terms of adequate supplies and the effects of price on industry and employment? Will we be exporting more jobs? Will homeowners be able to afford their natural gas heating bills? Katrina has made an already bad situation much worse.

We look forward to hearing from our distinguished panel. We are pleased to have here today:

- The Honorable Guy Caruso, Administrator of the Energy Information Administration at the United States Department of Energy.
- The Honorable Rebecca Watson, Assistant Secretary of Land and Minerals Management in the Department of the Interior.
- Mr. Michael Zenker, Senior Director of North American Natural Gas at Cambridge Energy Research Associates.
- Mr. Logan Magruder, President of the Independent Petroleum Association of Mountain States.
- Mr. Tyson Slocum, Research Director of the Energy Program at Public Citizen.

I look forward to hearing your testimony.